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Making a Difference Together

Wells Fargo is honored to have supported Habitat's mission with a $15,000 contribution toward building safe, affordable housing in our community. In addition to financial support, Abeles Flurie Wealth Management Group team members annually volunteer their time, this year lending a hand both inside and out. We are proud to celebrate this partnership, and the positive impact Habitat for Humanity continues to make for families throughout Washington County.







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Bonds at Every Stage of Life

Many think bonds are for the very conservative investor. But actually, bonds can be an important component to a well-balanced portfolio throughout every stage of an investor's life. They may help provide stability during volatile markets, help provide an income stream, and help with tax liability. Regardless of your life stage, consider having bonds in your investment portfolio.

At the Beginning

As a beginning investor in your 20s or 30s, you have a long time to grow capital and you may be in a good position to assume risks for potentially larger returns. Even at this early stage of investing, consider developing a portfolio that also balances risk and market volatility. While higher-yield investments can be important, it may make sense to balance them with investments that have historically been less volatile, including bonds. At this stage, you can:

✔**Help grow capital** with bonds that offer higher yields if you assume higher risk. Although higher-risk bond investments have greater potential for loss because of interest rate and credit risk, they may still have less risk than equities. You should make sure you understand the terms and conditions, including the bond's rating, call features, and if it is insured.

✔**Help protect your savings** for a large purchase, such as a car, a wedding, or a house. Lower-risk bonds may be a better investment than a traditional savings account to save for large purchases. Bonds may pay a higher interest rate than savings accounts. You may want to consider Treasury or corporate bonds with maturity dates that align with the timeframe in which you will need the money.

✔**Help diversify a qualified retirement plan (QRP)**, such as a 401(k), 403(b), or governmental 457(b). Your QRP most likely offers a variety of mutual funds, and bond funds may be a good way to diversify your portfolio and spread your risk. The stock and bond markets do not typically move in the same direction, so bonds may help stabilize and help with your overall returns.

In the Middle

Your mid-30s to late 40s should be a time of accumulating wealth and investing for retirement and other long-term goals. At this point in your life, consider rebalancing your portfolio on a regular basis to help ensure your allocation is keeping pace with your goals. At this point, it may make sense to consider more medium-risk investments in combination with your higher-risk investments.

You may want to consider making bonds a larger portion of your asset allocation than they were when you were younger, because they may offer more predictable income and continue to balance higher-risk equities.

Following are some bonds to consider at this stage in your investment life:

✔**Tax-advantaged bond investing** may be a good way to help offset taxes if you're in a higher tax bracket. Municipal bonds, which are issued by state and local governments, can be an attractive investment in your income-earning years because their interest is exempt from federal income taxes, although they may expose you to the alternative minimum tax. And, if you live in the same state as the issuer, their interest may be free from state and local taxes as well. Consider not including this type of investment in a tax-deferred retirement or college savings account, because you would be wasting the tax exemption feature.

✔**Zero-coupon bonds can be a good cost-effective investment for specific goals,** such as paying for college or money for retirement. They are sold at a steep discount from their face value, and when they mature, the face value will include both the principal and the accumulated interest. These bonds may also work well in a tax-deferred account.

Approaching Retirement

Now that you're getting closer to retirement, you may want to take fewer chances of losing a large portion of your portfolio. At this point, consider increasing the bond portion of your portfolio to help manage your risk.

Some issues to consider when evaluating bonds for your portfolio:

✔**Helping manage interest rate risk** is important because when interest rates rise, bond prices fall and vice versa. One way to help manage this risk is with a bond ladder. This strategy allows you to invest in a portfolio of bonds with different maturity timeframes to help your investments do well in different interest rate environments. When rates rise, you should have short-term bonds that mature so you can then invest the principal at higher rates. And when rates fall, you should have the longer-term bonds paying higher returns.

✔**Tax-advantaged bond investing** can continue to be a good way to help manage taxes, especially if you're in a higher tax bracket. Again, municipal bonds can be a good investment because their interest is exempt from federal income taxes, although they may expose you to the alternative minimum tax, and if you live in the same state as the issuer, their interest is free from state and local taxes as well.

In Retirement

Now your main goal may become helping protect and maximize your income for the remainder of your life. Social Security will most likely only replace a portion of your income, so your portfolio and retirement benefits will need to make up the rest. Bonds may help you generate retirement income while helping preserve your principal.

Things to consider:

✔**Helping guard against inflation** because you are now living on a fixed income. Treasury Inflation Protection Securities (TIPS) or Treasury Inflation Indexed Securities may help you guard against inflation. You may also want to keep a portion of your portfolio in stock for growth potential.

✔**Consider spending from taxable accounts first** because when you take money from tax-deferred accounts, you may pay income tax on your distributions. By spending the tax-deferred accounts last, your portfolio will potentially continue growing tax deferred while you are in retirement.

Please call if you'd like to discuss bonds in more detail. ❍❍❍

Retirement Planning Assumptions

To help enjoy your retirement with fewer financial worries, make sure you have enough money saved when you retire. However, calculating how much you need can be a daunting task, since a variety of factors affect your answer and inaccurate estimates for any factor can leave you with too little in savings. Some of the more significant factors include:

What percentage of your preretirement income will you need? You can find various rules of thumb indicating you need anywhere from 70% to over 100% of your preretirement income. On the surface, it seems like you should need less than 100% of your income. After all, you won't have any work-related expenses, such as clothing, lunch, or commuting costs. But look carefully at your current expenses and how you plan to spend your retirement before deciding how much you'll need. If you pay off your mortgage, stay in good health, live in a city with a low cost of living, and engage in inexpensive hobbies, then you might need less than 100% of your income. However, if you travel extensively, pay for health insurance, and maintain significant debt levels, even 100% of your income may not be enough.

When will you retire? Your retirement date determines how long you have to save and how long investment returns can compound. You want to make sure your retirement savings and other income sources, such as Social Security and pension benefits, will support you for what could be a very lengthy retirement. Even extending your retirement age by a couple of years can significantly effect the ultimate amount you need.

How long will you live? Today, the average life expectancy of a 65-year-old man is 81 and of a 65-year-old woman is 84 (Source: Social Security Administration). Most people look at average life expectancies when estimating this, but average life expectancy means you have a 50% chance of living beyond that age and a 50% chance of dying before that age. Since you can't be sure which will apply to you, it's typically better to assume you'll live at least a few years past that age. When deciding how many years to add, consider your health as well as how long other family members have lived.

What long-term rate of return do you expect to earn on investments? A few years ago, many retirement plans were calculated using fairly high rates of return, however those high returns are not assured. At a minimum, make sure your expectations are based on average returns over a very long period. You might even want to be more conservative, assuming a rate of return lower than long-term averages suggest. Even a small difference in your estimated and actual rate of return can make a difference in your ultimate savings.

Have you considered inflation? Even modest levels of inflation can significantly impact the purchasing power of your money over long time periods. When estimating an inflation figure, don't just look at the historically low inflation rates of the recent past. Also consider long-term inflation rates, since your retirement could last for decades.

What tax rate do you expect to pay during retirement? Especially if you save significant amounts in tax-deferred investments that will be taxable when withdrawn, your tax rate can significantly affect the amount you'll have available for spending. You may find your tax rate is the same or higher after retirement.

Once you've estimated these factors, you can calculate how much you may need for retirement. Please call if you'd like help with this calculation. ❍❍❍



Tax-Efficient Investment Strategies

During periods of uncertain returns, it becomes even more important to consider other ways to increase your portfolio's value. Using strategies that defer the payment of taxes for as long as possible can help make a substantial difference in your portfolio's ultimate size. Consider the following tax-efficient strategies:

✔ **Minimize portfolio turnover.** Carefully evaluate your investment choices and consider selecting those you'll be comfortable owning for years. That way, you can let any unrealized capital gains potentially grow for a long time.

✔ **Consider placing investments that generate ordinary income or that you want to trade frequently in your tax-deferred accounts.** Since income and realized capital gains inside tax-deferred accounts aren't taxed until withdrawn, you defer paying taxes on that income. Keep in mind that withdrawals may be subject to a 10% federal penalty if made prior to age 59 1/2.

✔ **Analyze the tax consequences before rebalancing your portfolio.** Portfolio rebalancing in a taxable account is a taxable event that may result in a taxable gain or loss. You can help bring your asset allocation back in line by, for instance, only purchasing those invesments that are underweighted in your portfolio. Reinvest interest, dividends, and capital gains in investments that are underweighted. Consider making withdrawals from overweighted investments. Or rebalance through your tax-deferred accounts, which typically won't result in current tax liabilities.

✔ **Consider utilizing losses to offset capital gains.** Selling investments at a loss can help offset capital gains for that year, potentially reducing your total tax liability. Excess losses may be used to offset up to $3,000 of ordinary income and the unused portion may be carried forward indefinitely. If you still want to own that investment, you can purchase it 30 or more days before or after selling it. That way, you will not be subject to the wash sale rules, so your loss will be tax deductible.

Please call if you'd like to discuss how to structure your portfolio in a more tax-efficient manner. ❍❍❍

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4 Steps to Create a Budget

Your budget holds your savings plan together and is the key to maintaining healthy savings. Here are four steps to help create a budget:

1. Track where your money goes —You can track your expenses using your bank statements, receipts, or logging it into a journal or mobile app.

2. Put your budget on paper — Once you've tracked your expenses, use a spreadsheet or online/mobile application to put your budget on paper. If you spent money on it, it should be in your budget. In another column, input your income. Subtract your expenses from your income to see you how much money you have left every month.

3. Keep looking for ways to increase your savings — Almost all expenditure categories offer potential for savings.

4. Reevaluate — It is critical to reevaluate your budget after the first few months to help ensure it fits your needs and goals. If you find that you are continuously spending more money than budgeted for necessities such as gas, groceries, or school supplies, consider adjusting your budget. Reevaluate every six months or as needed.

Please call if you'd like to discuss this in more detail. ❍❍❍

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